LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7808 **NOTE PREPARED:** Feb 25, 2003
BILL NUMBER: SB 463 **BILL AMENDED:** Feb 20, 2003

SUBJECT: Medicaid Case-Mix Reimbursement Changes.

FIRST AUTHOR: Sen. Dillon **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
DEDICATED
X **FEDERAL**

Summary of Legislation: (Amended) This bill establishes target statewide average occupancy rates for health facilities that receive Medicaid funding. The bill also requires the state's Medicaid rate setting contractor to: (1) use the most recent completed year when calculating medians and provider rates; and (2) calculate the median for each rate component each quarter using all cost reports received by the state within a specified timeframe. The bill also requires the Office of Medicaid Policy and Planning (OMPP): (1) to modify Medicaid reimbursement for health facilities to remove expenses for property taxes from the capital rate component and calculate the expenses in a new rate component; and (2) to adopt specified emergency and permanent rules. It also specifies use of any increase in funding from certain intergovernmental transfers.

Effective Date: (Amended) Upon passage; March 31, 2003 (retroactive); July 1, 2003.

Explanation of State Expenditures: (Revised) *Summary:* This bill provides for changes to the Medicaid case-mix reimbursement system used in determining reimbursement rates for nursing facilities. Total additional expenditures to the Medicaid program are estimated to increase by $13.4 M to $23.4 M annually. The state share of this amount would be $5.1 M to $8.9 M annually from the state General Fund.

Background Information:

Rate-Setting Procedures: The bill contains provisions that change the procedures the rate-setting contractor uses when recalculating reimbursement rates. These procedures specify the nursing facility cost reports to use when establishing medians, specify the timing requirements when requesting additional information, and limits the use of draft audit reports in setting rates. Myers and Stauffer, the state's nursing facility rate-setting contractor, estimates that if nursing home costs increase by 1% to 2% greater in the aggregate than the HCFA/SNF index, the annual additional expenditures paid to nursing facilities would be about $10 to $20 M. This would represent $3.8 M to $7.6 M in state share of expenditures.

The provision effectively alters the methodology for calculating reimbursement rates by basing the new rates on the most recently completed cost reports provided by nursing facilities, rather than on the prior year's cost reports. In either case, in the calculation of the new rates, the nursing facility cost data would be projected forward by the HCFA/SNF index, an index computed by the Centers for Medicare and Medicaid Services (CMS, formerly HCFA). This is an index much like the Consumer Price Index, except that it measures the historical change in nursing facility costs instead of the costs of consumer items.

Generally, to the extent that the HCFA/SNF index is a good predictor of the allowable costs reported by Indiana nursing facilities, the impact of the change caused by this provision would be minimal. However, if actual Indiana costs rise faster than the nation's costs, as measured by HCFA/SNF, the calculated reimbursement rates to nursing facilities will be higher than they would otherwise be. The impact for each percentage point of actual Indiana cost increases over the HCFA/SNF index is estimated by industry sources to range from $8.3 M to $12.5 M in total Medicaid expenditures on an annual basis (or $3.15 M to $4.75 M in state costs). Conversely, if the actual Indiana costs rise slower than the HCFA/SNF index, the change in the methodology resulting from this bill would result in reduced Medicaid expenditures.

Based on an analysis by one industry source of the change in allowable nursing facility costs using 1998 and 2000 cost data, if these conditions were to continue, total Medicaid expenditures would be projected to increase by $12.9 M (or $4.9 M in state costs). Again, the amount and direction of the impact will depend on the relationship between changes in actual Indiana nursing facility costs and changes in projected costs. In comparison, Myers and Stauffer, the state's nursing facility rate-setting contractor, estimates the impact at $10 M to $20 M as described above.

Consideration of Property Taxes: This bill removes property taxes from the capital rate component and reimburses these costs separately without a limit. The net additional expenditures of this provision are estimated to be $3.4 M, or about $1.3 M in state share.

The capital rate component is currently one of four basic components in the case-mix reimbursement system: direct care, indirect care, administrative, and capital. Property taxes are an allowable cost within the capital component. The capital component is limited to a 95% minimum occupancy limitation, as well as by an 80% factor when computing the component's contribution to the total reimbursement rate. The bill would remove property taxes from the capital component and would create a new "property tax" component which would have no limiter.

Target Statewide Average Occupancy Rates: This bill also establishes a target for statewide average occupancy rates for licensed comprehensive beds that are also Medicaid-certified. (As of October 2002, the Department of Health reported only 801 non-certified licensed comprehensive care beds, so for the purposes of illustration, this note will use statewide reports for all licensed beds.) The bill establishes the following calendar year targets for statewide occupancy rates:

2004	75%
2005	85%
2006 & Thereafter	90%

The bill allows OMPP to adopt statewide policies including the revision of the reimbursement system in

order to facilitate the achievement of these targets.

The bill also requires OMPP to annually report specific information regarding progress towards achieving the targeted occupancy rates to the Select Joint Commission on Medicaid Oversight. This requirement can be achieved within OMPP's current level of resources.

In July 2002, OMPP implemented a minimum occupancy standard of 65% on the direct, indirect, and administrative components of the long-term care rate structure for Medicaid reimbursement of nursing home care. In December 2002, the State Department of Health reported that comprehensive care beds were being delicensed at a rapid pace. OMPP has published the intent to increase the minimum occupancy standard to 75% in 2003, 85% in 2004, and 90% in 2005. The table below shows occupancy data for licensed comprehensive care beds in the state as reported by the Department of Health.

Occupancy Rate for Comprehensive Beds, Indiana 1990 -2002.

Year	Number of Comprehensive Beds	Occupancy Rate of Comprehensive beds	Number of Facilities
1990	55,341	81.51%	
1993	55,015	82.62%	
1994	54,634	83.09%	589
1996	57,472	70.90%	
1997	57,640	75.49%	
1998	57,995	77.77%	
1999	58,097	75.83%	581
2000	57,520	73.57%	566
2001*	55,330	75.96%	
2002*	37,191		564

* *Preliminary data from the State Department of Health. These numbers are subject to further refinement.*

If the number of licensed comprehensive nursing facility beds has declined to the extent indicated above, it is possible that the 90% occupancy target has already been met.

Explanation of State Revenues: (Revised) *Intergovernmental Transfers:* The bill requires that any additional federal financial participation (FFP) that the state receives through an intergovernmental transfer must be used to supplement Medicaid reimbursement for nursing facilities. The bill requires that the property tax pass through and requirement for current costs to be used in the rate calculation must be funded through this mechanism (See *Explanation of State Expenditures*). Currently, Marion County Health and Hospital Corporation's non-state governmental nursing facility, Lockfield Village, is the source of the intergovernmental transfer.

Explanation of Local Expenditures:

Explanation of Local Revenues: Currently, there are six county-owned nursing facilities that would be subject to this change in the case-mix reimbursement methodology.

State Agencies Affected: Office of Medicaid Policy and Planning; State Department of Health.

Local Agencies Affected: County-owned nursing facilities.

Information Sources: Keenan Buoy, Myers and Stauffer, (317) 846-9521; Zach Cattell, Legislative Liaison for the Department of Health, (317)-233-2170. And the "2000 County Long-Term Care Statistical Profile", Indiana State Department of Health, on the Web at http://www.in.gov/isdh/regsvcs/acc/ltcstats/charactersitics.htm

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